

MAY 15 1992

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Total Pages: 55
Index to Exhibits Page: 10SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 1992☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 0-19261

MACKINAC FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)Michigan
(State or other jurisdiction of incorporation or organization)38-2986104
(I.R.S. Employer Identification No.)511 Woodward Avenue, Detroit, Michigan 48226
(Address of principal executive offices and zip code)(313) 961-7600
(Registrant's telephone number, including area code)Not Applicable
(Former name, former address and former fiscal
year if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be
filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12
months (or for such shorter period that the registrant was required to file such reports),
and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common
stock, as of the latest practicable date.

CLASS
Common Stock, no par valueOutstanding at April 30, 1992
89,731 SharesL30
PROCESSED
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Q-Data Corp. - St. Petersburg, FL

MACKINAC FINANCIAL CORPORATION
AND SUBSIDIARIES

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**MACKINAC FINANCIAL CORPORATION
AND SUBSIDIARIES**

Consolidated Statements of Financial Condition

<u>ASSETS</u>	March 31, 1992 (Unaudited)	December 31, 1991
Cash	\$ 2,790,291	2,125,616
Federal funds sold	13,026,717	10,106,039
Mortgage-backed securities (market value \$34,700,000 - 1992 and \$44,500,000 - 1991)	33,764,924	43,147,173
Loans receivable, net	138,318,513	145,720,425
Loans held for sale	25,430,940	12,449,379
Accrued interest receivable, net	1,514,614	1,667,167
Real estate, net	1,808,745	2,183,522
Premises and equipment, net	3,407,866	3,375,800
Federal Home Loan Bank stock, at cost	2,140,700	1,735,700
Other assets	<u>3,069,492</u>	<u>1,569,327</u>
	<u>\$225,272,802</u>	<u>224,080,148</u>
 <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Liabilities:		
Deposits	\$165,291,406	168,720,965
Advances from Federal Home Loan Bank	40,512,500	34,612,500
Reverse repurchase agreements	5,040,000	7,452,000
Accrued interest payable	3,275,944	3,381,696
Advance payments by borrowers for taxes and insurance	2,066,910	1,126,725
Other liabilities	<u>1,598,016</u>	<u>1,747,407</u>
Total Liabilities	217,784,776	217,041,293
Stockholders' Equity:		
Serial preferred stock, 400,000 shares authorized and unissued	---	---
Common stock, 600,000 shares authorized; 89,731 shares issued and outstanding at 3/31/92 and 12/31/91	89,731	89,731
Additional paid-in capital	2,123,829	2,123,829
Retained earnings, substantially restricted	<u>5,274,466</u>	<u>4,825,295</u>
Total Stockholders' Equity	<u>7,488,026</u>	<u>7,038,855</u>
	<u>\$225,272,802</u>	<u>224,080,148</u>

MACKINAC FINANCIAL CORPORATION
AND SUBSIDIARIES
Consolidated Statements of Operations
(Unaudited)

	<u>Three Months Ended March 31,</u>	
	<u>1992</u>	<u>1991</u>
Interest income:		
Interest on loans	\$3,814,693	3,982,007
Interest on mortgage-backed securities	735,854	1,167,839
Interest and dividends on investments	<u>161,414</u>	<u>249,163</u>
Total interest income	<u>4,711,961</u>	<u>5,399,009</u>
Interest expense:		
Interest on deposits	2,192,139	3,011,379
Interest on borrowings	<u>648,026</u>	<u>709,988</u>
Total interest expense	<u>2,840,165</u>	<u>3,721,367</u>
Net interest income	1,871,796	1,677,642
Provision for loan losses	<u>44,000</u>	<u>35,000</u>
Net interest income after provision for loan losses	1,827,796	1,642,642
Other income (expense):		
Fees and service charges	47,306	67,918
Loan servicing income	386,043	352,699
Fees recognized on sale of loans	141,284	48,797
Gains on sale of mortgage-backed securities	93,470	---
Real estate operations, net	(43,251)	(51,998)
Other, net	<u>27,201</u>	<u>18,333</u>
Total other income	<u>652,053</u>	<u>435,749</u>
General and administrative expenses:		
Compensation and employee benefits	1,114,712	875,208
Occupancy expense, net	248,728	128,820
Advertising	9,744	20,339
Data processing expense, net	107,633	100,717
Federal Insurance expense	96,508	95,470
Other, net	<u>467,989</u>	<u>346,721</u>
Total gross general and administrative expenses	2,045,314	1,567,275
Loan costs capitalized	<u>(248,636)</u>	<u>(68,553)</u>
Total net general and administrative expenses	<u>1,796,678</u>	<u>1,498,722</u>
Net income before Federal income taxes	683,171	579,669
Federal income taxes	<u>234,000</u>	<u>187,000</u>
Net income	<u>\$ 449,171</u>	<u>392,669</u>
Earnings per common share:		
Net income	<u>\$ 5.01</u>	<u>4.38</u>

AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity
(Unaudited)

	Common <u>Stock</u>	Paid-in <u>Capital</u>	Retained Earnings Substantially <u>Restricted</u>	Total Stock- holders' <u>Equity</u>
Balance, December 31, 1990	\$89,731	2,123,829	3,105,855	5,319,415
Net income for the year 1991	<u>---</u>	<u>---</u>	<u>1,719,440</u>	<u>1,719,440</u>
Balance, December 31, 1991	89,731	2,123,829	4,825,295	7,038,855
Net income for three months ended March 31, 1992	<u>---</u>	<u>---</u>	<u>449,171</u>	<u>449,171</u>
Balance, March 31, 1992	<u>\$89,731</u>	<u>2,123,829</u>	<u>5,274,466</u>	<u>7,488,026</u>

Consolidated Statements of Cash Flows
(Unaudited)

<u>Increase (Decrease) in Cash and Cash Equivalents</u>	<u>Three Months Ended March 31,</u>	
	<u>1992</u>	<u>1991</u>
Net cash flows from operating activities:		
Net Income	\$ 449,171	392,669
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	81,663	77,339
Provision for losses on loans	44,000	35,000
(Increase) decrease in accrued interest receivable	152,553	(164,600)
(Decrease) increase in accrued interest payable	(105,752)	(377,797)
(Increase) decrease in other assets	(1,500,165)	(389,033)
(Decrease) increase in other liabilities	<u>(149,391)</u>	<u>344,934</u>
Net cash used by operating activities	(1,027,921)	(81,488)
Cash flows from investing activities:		
Net decrease in short term investment securities	---	(2,039,419)
Sales of mortgage-backed securities	2,873,328	1,259,562
Principal repayments on mortgage-backed securities	6,508,921	4,978,533
Sales of loans	38,845,167	13,072,311
Loan principal repayments	7,847,419	2,383,131
Loans originated	(52,316,235)	(13,710,549)
Increase (decrease) in real estate	374,377	(270,964)
Investment in premises and equipment	(113,729)	14,095
Investment in Federal Home Loan Bank Stock	<u>(405,000)</u>	<u>---</u>
Net cash provided by investing activities	3,614,648	5,686,700
Cash flows from financing activities:		
Net increase in short-term deposits	4,522,306	4,712,719
Net decrease in time-deposits	(7,951,865)	(6,374,956)
Proceeds from Federal Home Loan Bank advances	8,900,000	800,000
Repayments of Federal Home Loan Bank advances	(3,000,000)	(600,000)
Decrease in reverse repurchase agreements	(2,412,000)	(6,179,319)
Net increase in mortgage escrow funds	<u>948,185</u>	<u>809,406</u>
Net cash provided (used) by financing activities	<u>998,626</u>	<u>(6,832,150)</u>
Net increase (decrease) in cash and cash equivalents	3,585,353	(1,226,938)
Cash and cash equivalents at December 31	<u>12,231,655</u>	<u>15,957,034</u>
Cash and cash equivalents at March 31	<u>\$15,817,008</u>	<u>\$14,730,096</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	2,945,917	4,099,164
Federal income taxes	425,000	385,000
Mortgage loans securitized	---	6,825,329

MACKINAC FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

(1) Basis of Presentation

On April 23, 1991, Mackinac Financial Corporation (the "Company") became the holding company for Detroit Savings Bank, F.S.B. (the "Savings Bank"), acquiring all of the issued and outstanding common stock of the Savings Bank. As a result of the reorganization of the Savings Bank, the Company became the successor issuer for the common stock of the Savings Bank. Consequently, the financial information through April 23, 1991 which is contained in the accompanying consolidated financial statements (the "Financial Statements") relate only to the operations of the Savings Bank. Because substantially all of the Company's assets and operations are the assets and operations of the Savings Bank and the subsidiaries of the Savings Bank, the financial information of the Company and the financial information of the Savings Bank are comparative.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all disclosures required by generally accepted accounting principles for complete financial statements. In the opinion of management of Mackinac Financial Corporation, the financial statements reflect all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position of the Corporation and the results of operations and cash flows for the interim period.

These Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto, for the year ended December 31, 1991, included in Mackinac Financial Corporation's Annual Report and Form 10-K as of and for the year ended December 31, 1991.

(2) Principles of Consolidation

The consolidated financial statements include the accounts of Mackinac Financial Corporation, Detroit Savings Bank, F.S.B., (a wholly-owned subsidiary of Mackinac Financial Corporation), Mackinac Corporation and Mackinac Realty, Inc. (wholly-owned subsidiaries of Detroit Savings Bank, F.S.B.) and Mackinac Agency, Inc. (a wholly-owned subsidiary of Mackinac Corporation). All material intercompany transactions and balances are eliminated in consolidation.

Management's Discussion and Analysis

(1) Liquidity - The Office of Thrift Supervision ("OTS") presently requires insured institutions to maintain a 5% minimum liquidity ratio of cash and eligible investments to savings deposits and short-term borrowings. Detroit Savings Bank ("DSB") has normally exceeded this requirement. Liquidity (and the liquidity ratio) increased from \$12,198,528 (6.30%) at December 31, 1991 to \$15,751,983 (8.14%) at March 31, 1992.

(2) i. Capital Resources - As of March 31, 1992 the Corporation had no material commitments for capital expenditures.

ii. Trends in Capital Resources - Funding requirements for normal operations are planned to be met primarily through savings, possible loan sales, loan prepayments and borrowings.

Because Detroit Savings Bank did not meet the new capital standards imposed by FIRREA in 1989, the Savings Bank filed a Capital Plan with the OTS projecting compliance with the new capital requirements by the end of 1991 through the continuation of operating earnings.

DSB met the approved Capital Plan interim capital ratio targets in all material respects through December 31, 1991. Because of the proposed increase in the core capital requirement to 4% or more, the OTS requested DSB to file a Capital Plan Extension in July, 1991. DSB filed the Capital Plan extension in August, 1991 which projected compliance with the 4.0% core capital target by mid-1993 through normal operating earnings. The plan extension was approved by the OTS in January, 1992. If Detroit Savings Bank fails to comply with the Capital Plan Extension the Director of the OTS, through enforcement proceedings or otherwise, could require DSB to take corrective action.

Management's Discussion and Analysis (Continued)

As of March 31, 1992 Detroit Savings Bank's capital levels and ratios relative to its minimum capital requirements were as follows:

<u>Type of Capital</u>	<u>Amount</u>	<u>Percentage</u>
Tangible Capital	\$ 7,456,000	3.31%
Tangible Capital Requirement	<u>3,378,000</u>	<u>1.50%</u>
Excess	4,078,000	1.81%
Core Capital	7,456,000	3.31%
Core Capital Requirement	<u>6,757,000</u>	<u>3.00%</u>
Excess	699,000	0.31%
Risk-Based Capital	8,783,000	7.61%
Risk-Based Capital Requirement	<u>8,305,000</u>	<u>7.20%</u>
Excess	478,000	0.41%

DSB in all material respects met the approved Capital Plan Extension interim capital ratio targets through March 31, 1992 and is currently in full capital compliance. In order to meet the proposed core capital requirement increase earlier and accelerate capital growth, Mackinac Financial Corporation completed a \$1.5 million bank borrowing with the proceeds invested as capital in Detroit Savings Bank in April 1992. The borrowing increased Detroit Savings Bank's tangible and core capital ratios to more than 4% and its risk-based capital ratio to more than 9% and could eliminate the necessity of operating under the restrictions imposed by a Capital Plan.

(3) Results of Operations

Quarter ended March 31, 1992 Compared to Quarter Ended March 31, 1991

Net income for the quarter ended March 31, 1992 was \$449,000 compared to \$393,000 for the quarter ended March 31, 1991. Net interest income increased by \$185,000 primarily due to an increase in the net interest rate spread from 2.77% for the first quarter of 1991 to 3.15% for the first quarter of 1992. Other income increased \$216,000 due in part to a \$92,000 increase in fees recognized on the sale of a much larger volume of fixed rate residential loan originations in the first quarter of 1992 than in the similar period in 1991. Additionally DSB sold all of its remaining fixed rate mortgage backed securities (\$2.9 million) held for investment for asset/liability management purposes in 1992 for a gain of \$93,000.

General and administrative expenses increased \$478,000 primarily due to the additional manpower and equipment required to handle the larger lending and loan servicing volumes. The expense increase was partially offset by a \$180,000 increase in capitalized loan origination expenses due to the higher volume of loan originations.

Loan closings for the quarter were \$52.2 million compared to \$14.6 million for the first quarter of 1991 and consisted of virtually all residential loans in both reporting periods.

90% of the loans closed were fixed rate loans which are almost always sold to minimize interest rate risk. Loans serviced for others increased to \$220 million at March 31, 1992 from \$148 million at March 31, 1991. (\$187 million at December 31, 1991)

Loan Commitments

As of March 31, 1992 Detroit Savings Bank had outstanding commitments to originate loans of approximately \$26.2 million and commitments to sell loans of approximately \$20.2 million. The commitments to originate loans included 17.6 million of fixed rate single family residential loans with a weighted average interest rate of 8.5% and 8.6 million of adjustable rate single family residential loans with a weighted average interest rate of 7.6%.

Management's Discussion and Analysis (Continued)

Other Events

In April, 1992 Mackinac Financial Corporation completed a holding company borrowing of \$1.5 million and invested the proceeds as capital in Detroit Savings Bank. The stock of the Savings Bank was pledged as collateral for the loan and dividends from DSB to MFC will be required to retire the debt. In early May, 1992 the Corporation declared a cash dividend of \$0.50 per share payable May 26, 1992.

Classified Assets

The following table sets forth information regarding non-performing assets, non-accrual loans and other loans of concern at the dates indicated. At December 31, 1991 and March 31, 1992, DSB had one restructured loan with a balance of \$299,000 included in non-accruing commercial real estate loans below that met the definition of a restructured loan within the meaning of SFAS No. 15.

	At March 31, 1992	At December 31, 1991
	\$ (000)	
<u>Non-Performing Assets</u>		
Loans accounted for on a non-accrual basis: (1)		
Real Estate:		
Residential	\$ 909	\$ 731
Commercial	559	671
Other	2	2
Total	<u>\$1,470</u>	<u>\$1,404</u>
REO/REJ	<u>1,795</u>	<u>2,118</u>
Total Non-Performing Assets	<u>\$3,265</u>	<u>\$3,522</u>
Percentage of total assets	<u>1.45%</u>	<u>1.57%</u>
<u>Other Loans of Concern</u>		
Real Estate:		
Residential	\$ 389	\$ 389
Commercial	--	--
Other	--	--
Total	<u>389</u>	<u>389</u>
Total Non-Performing Assets and other loans of concern:	<u>\$3,654</u>	<u>\$3,911</u>
Percentage of total assets	<u>1.62%</u>	<u>1.75%</u>

(1) Includes all loans 90 days or more contractually delinquent.

MACKINAC FINANCIAL CORPORATION
AND SUBSIDIARIES

PART II

ITEM 1. Legal Proceedings

No material changes or developments during the quarter.

ITEM 2. Changes in Securities

On April 30, 1992, Mackinac Financial Corporation entered into a Term Loan Agreement with First of America Bank-Southeast Michigan, N.A. under which it borrowed \$1,500,000. Principal and interest are payable monthly over a 5 year term. As security for the loan, Mackinac Financial Corporation has pledged its stock in Detroit Savings Bank. Among other restrictions, Mackinac Financial Corporation may not pay cash dividends in an amount which exceeds in the aggregate 1/3 of its net income after taxes for the applicable period without the consent of the Bank.

ITEM 3. Defaults Upon Senior Securities

Not applicable

ITEM 4. Submission of Matters to a Vote of Security Holders

At Mackinac Financial Corporation's Annual Meeting of Stockholders held on April 24, 1992, Dwight P. Black and John E. Park were elected to three year terms as directors. William E. Saubie, Douglas F. Roby, Samuel B. Sherer, Sr., Walter B. Robinson and W. Gerald Warren will continue to serve as directors. In addition, the following matters were submitted to a vote of the shareholders:

1. The ratification of KPMG Peat Marwick as DSB's auditors for the 1992 fiscal year.

	<u>SHARES</u>	<u>%</u>
For	76,650	85%
Against	0	0%
Abstain	0	0%

2. The approval of a long term executive officer's incentive plan.

	<u>SHARES</u>	<u>%</u>
For	70,137	78%
Against	6,021	7%
Abstain	492	1%

ITEM 5. Other Materially Important Events

None

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

1. Executive Officers Incentive Plan
2. Term Loan Agreement with First of America Bank-Southeast Michigan, N.A. dated as of April 30, 1992.

- (b) Reports on Form 8-K. No reports on Form 8-K have been filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MACKINAC FINANCIAL CORPORATION

Date: May 14, 1992

By: /s/SAMUEL B. SHERER

Samuel B. Sherer
President

Date: May 14, 1992

By: /s/GORDON W. CREER

Gordon W. Creer
Treasurer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

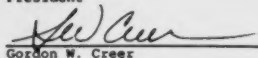
MACKINAC FINANCIAL CORPORATION

Date: May 14, 1992

By: 

Samuel B. Sherer
President

Date: May 14, 1992

By: 

Gordon W. Creer
Treasurer

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4. Term Loan Agreement dated as of April 30, 1992 with First of America Bank-Southeast Michigan, N.A.
10. Executive Officers Incentive Plan

TERM LOAN AGREEMENT

between

FIRST OF AMERICA BANK - SOUTHEAST MICHIGAN, N.A.

and

MACKINAC FINANCIAL CORPORATION

Dated as of April 30, 1992

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TERM LOAN AGREEMENT

This is a Term Loan Agreement dated as of April 30, 1992, between FIRST OF AMERICA BANK - SOUTHEAST MICHIGAN, N.A. ("the Bank"), 645 Griswold Street, P.O. Box 2659, Detroit, Michigan 48226, and MACKINAC FINANCIAL CORPORATION, a Michigan corporation ("the Borrower"), 511 Woodward Avenue, Detroit, Michigan 48226.

SECTION 1 Definitions and Interpretation

1.1. Definitions. In addition to any terms that are defined elsewhere in this Agreement, the following terms are used in this Agreement with the respective meanings given in this Section 1.1, unless the context clearly requires a different meaning.

"Base Rate" means the interest rate established as such by the Bank from time to time based on its consideration of economic, money market, business and competitive factors. The Base Rate is not necessarily the Bank's most-favored or lowest rate.

"Capital Plan" means DSB's capital plan filed with the OTS on December 1, 1989, as approved by the OTS on April 18, 1990, including the OTS approval conditions accepted by DSB's Board of Directors on May 2, 1990, together with an extension approved by the OTS in January 1992.

"Closing" means the making of the Loan, and "Closing Date" means the date on which the Closing occurs.

"DSB" means Detroit Savings Bank, a federal savings bank wholly owned by the Borrower.

"Environmental Surveys" means properly completed Loan Application Environmental Questionnaires (on forms provided by the Bank), signed by the President of the Borrower and the President of DSB.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Financial Statements" means, collectively, (a) the consolidated statements of financial condition of the Borrower and subsidiaries (including DSB) as of December 31, 1991 and 1990, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1991, with

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the report thereon of KPMG Peat Marwick, and (b) the consolidated statements of financial condition of DSB and subsidiaries as of December 31, 1990 and 1989, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1990, with the report thereon of KPMG Peat Marwick.

"Loan" means a loan of \$1,500,000 by the Bank to the Borrower on the terms and subject to the conditions provided in this Agreement, including the attached exhibits.

"Loan Documents" means, collectively, this Agreement, the Note, the Pledge Agreement and any documents delivered to the Bank by or on behalf of the Borrower or DSB pursuant to any of the foregoing.

"Maturity Date" means May 1, 1997.

"Note" means the Borrower's Term Note dated the Closing Date, in the original principal amount of the Loan, substantially in the form of EXHIBIT A, and any note given in substitution, renewal or extension.

"OTS" means the Office of Thrift Supervision.

"Payment Date" means the first day of each month, commencing on June 1, 1992 and ending on the Maturity Date.

"Person" or "person" means an individual or a corporation, partnership or other entity.

"Pledge Agreement" means the Stock Pledge Agreement dated as of April 30, 1992, between the Borrower and the Bank, substantially in the form of EXHIBIT B, granting the Bank a security interest in all of the outstanding stock of DSB to secure the Loan.

"Required DSB Dividends" means cash dividends declared and paid by DSB at such times and in such amounts as will provide the Borrower with the funds which, when added to any other funds of the Borrower that are available for such purpose, will be sufficient to enable the Borrower to make timely payment of the principal of and interest on the Note coming due before the next reasonably anticipated payment of a Required DSB Dividend.

1.2 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles.

1.3. Table of Contents and Captions. The table of contents and the captions of the various sections and paragraphs of this Agreement are for convenience of reference only, but they are not part of this Agreement, and they shall not be deemed in any manner to modify, explain, enlarge or restrict any of its provisions.

1.4. Certain References in Text. References to exhibits are to the several exhibits attached to this Agreement at the time it is executed and delivered by the parties. References to sections or paragraphs are to sections or paragraphs of this Agreement unless otherwise indicated. "Herein", "hereof", "hereof" and similar words refer to this Agreement in its entirety and not to any particular section, paragraph or other part of this Agreement.

SECTION 2

Amount and Terms of Loan

2.1. Loan, Note and Payments. The Bank agrees to make the Loan on the terms and subject to the conditions of this Agreement.

(a) The Loan will be evidenced by the Note, which shall bear interest on the unpaid principal balance thereof at a fluctuating rate per annum equal to 0.50% above the Base Rate but not more than 10.00% per annum. For purposes of the Loan, such rate shall change automatically and without notice to the Borrower, effective as of the effective date of each announced change by the Bank in the Base Rate. Interest shall be calculated on the basis of a 360-day year, but for the actual number of days elapsed during each interest calculation period.

(b) Interest on the Note shall be due and payable monthly in arrears, and principal of the Note shall be due and payable in monthly installments of \$25,000 each, on each Payment Date until the Maturity Date, when the entire principal balance and all interest then due shall be paid in full.

(c) So long as the Borrower is not in default under this Agreement or the Note, the Borrower shall have the right, on any Payment Date, to prepay whole installments of the principal of the Note without penalty. All prepayments of principal shall be applied in inverse order of Payment Dates.

2.2. Security. Payment of the Note shall be secured by the Borrower's pledge to the Bank of 100% of the outstanding stock of DSB pursuant to the Pledge Agreement.

SECTION 3
Use of Proceeds

The proceeds of the Loan shall be contributed by the Borrower to DSB on the Closing Date for the purpose of increasing the equity capital of DSB.

SECTION 4
Representations and Warranties of Borrower

The Borrower represents and warrants to the Bank as follows:

4.1. Corporate Organization and Authority.

(a) The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Michigan.

(b) DSB is a federal savings bank, duly organized, validly existing and in good standing under the laws of the United States.

(c) The Borrower and DSB have all requisite power and authority and all necessary licenses and permits to own and operate their properties and to carry on their businesses as and where now conducted and currently proposed to be conducted, except where the failure to do so will not have a material adverse effect on the business, properties, prospects, profits or condition (financial or otherwise) of the Borrower or DSB.

(d) The Borrower and DSB are each duly qualified to do business and in good standing in each jurisdiction in which its ownership or possession of property (as lessee or otherwise) or its business activities require such qualification, except where the failure to do so will not have a material adverse effect on the business, properties, prospects, profits or condition (financial or otherwise) of the Borrower or DSB.

4.2 Capitalization of Borrower and DSB. The capital stock that the Borrower is authorized to issue consists entirely of 600,000 shares of Common Stock (of which only 89,731 shares are issued and outstanding) and 400,000 shares of serial preferred stock (none of which are issued and outstanding). The capital stock that DSB is authorized to issue consists entirely of 6,000,000 shares of Common Stock, par value \$1.00 per share (of which only 100 shares are issued and outstanding), and 4,000,000 shares of serial preferred stock (none of which are issued and outstanding). There are no outstanding options, warrants or other agreements or undertakings of any kind that would require either the Borrower or DSB to issue any

additional shares of stock of any class or series or to issue any rights convertible to or exchangeable for any such stock, other than shares of stock of the Borrower awarded or reserved for awards under the Borrower's Executive Officer's Incentive Plan, a true and complete copy of which has been provided to the Bank.

4.3. Financial Statements. The Borrower has furnished the Financial Statements to the Bank. The Financial Statements have been prepared in accordance with generally accepted accounting principles consistently applied and present fairly the Borrower's and DSB's financial condition as of the relevant dates thereof and the results of their operations for the periods then ended. There have been no material adverse changes in the Borrower's or DSB's financial condition since December 31, 1991.

4.4. Full Disclosure. Neither the Financial Statements, this Agreement nor any written statement furnished by the Borrower to the Bank in connection with obtaining the Loan (including, without limitation, the Environmental Surveys) contains any untrue statement of a material fact, or omits to state a material fact, necessary to make the statements contained therein or herein not misleading in any material respect. There is no fact which the Borrower has not disclosed to the Bank in writing which materially adversely affects the properties, business, prospects, profits or condition (financial or otherwise) of the Borrower or DSB or the ability of the Borrower to perform its obligations under any Loan Document.

4.5. Title to Properties. Except as previously disclosed to the Bank in writing and except for (i) leases entered into in the ordinary course of business for miscellaneous office equipment, (ii) pledges by DSB of loans and securities to the Federal Home Loan Bank to secure advances in the ordinary course of DSB's business and (iii) security interests arising from reverse repurchase agreements entered into by DSB in the ordinary course of its business, the Borrower and DSB each has good and marketable title to all property which it purports to own, free from any liens and encumbrances.

4.6. Borrowing is Legal and Authorized.

(a) The Board of Directors of the Borrower has duly authorized the execution, delivery and performance of the Loan Documents, and each Loan Document and the Note constitutes a valid and binding obligation of the Borrower enforceable in accordance with its terms.

(b) The execution, delivery and performance of the Loan Documents and the compliance by the Borrower with all of the provisions thereof (i) are within the corporate powers of

the Borrower, (ii) will not conflict with, result in any breach of any of the provisions of, constitute a default under or result in the creation of any lien or encumbrance upon any property of the Borrower under, the provisions of any agreement, charter document, bylaw or other instrument to which the Borrower is a party or by which it may be bound and (iii) are legal and will not violate or conflict with any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award currently in effect.

(c) Except for limitations in the Capital Plan, there are no limitations in any agreement or instrument to which the Borrower is now a party or by which the Borrower may be bound with respect to the payment of principal of or interest on any indebtedness of the Borrower, including the Note.

4.7. No Defaults. No event has occurred and is continuing that would constitute an Event of Default (as defined in Section 7), determined without regard for any requirement for the giving of notice or the passage of time. The Borrower is not in violation in any material respect of any term or provision of any agreement, charter document, bylaw or other instrument to which it is a party or by which it may be bound.

4.8. Government Consent. Neither the nature of the Borrower or of its business or properties, nor any relationship between the Borrower and any other Person, nor any circumstance in connection with the execution, delivery or performance of the Loan Documents, is such as to require a consent, approval or authorization of, or filing, registration or qualification with, any governmental authority on the part of the Borrower as a condition to the execution, delivery and performance of the Loan Documents, except for such as are required by the OTS or any other federal agency, of which those relating to execution, delivery and (except for payment of the Required DSB Dividends for periods subsequent to the quarter ended March 31, 1992) performance have been obtained and are in force.

4.9. Taxes.

(a) All tax returns required to be filed by the Borrower and DSB in any jurisdiction have been filed, and all taxes, assessments, fees and other governmental charges upon the Borrower or DSB or their income or properties, which are due and payable, have been paid. The Borrower does not know of any proposed additional tax or other assessments against it, DSB or their income or properties in connection with any prior period, except for additional taxes or assessments that would not have a material adverse effect on the business, properties, prospects, profits or condition (financial or otherwise) of the Borrower or DSB.

(b) The provisions for taxes on the books of the Borrower and DSB for their current fiscal periods are adequate.

4.10. Compliance with Law. The Borrower and DSB (a) are not in violation of any laws, ordinances or governmental rules or regulations to which they are subject and (b) have not failed to obtain any licenses, permits, franchises or other governmental authorizations necessary to the ownership of their properties or to the conduct of their businesses, which violation or failure might materially and adversely affect the business, prospects, profits, properties or condition (financial or otherwise) of the Borrower or DSB.

4.11. Restrictions on Borrower and DSB. Neither the Borrower nor DSB are a party to any contract or agreement, or subject to any charter, bylaw or other corporate restriction, which materially adversely affects the business, prospects, profits, properties or conditions (financial or otherwise) of the Borrower or DSB. The Borrower is not a party to any contract or agreement which restricts the right or ability of the Borrower to incur indebtedness, other than this Agreement. Except as heretofore disclosed to the Bank in writing or as described in clause (i), (ii) or (iii) of Section 4.5, neither the Borrower nor DSB has agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of their property, whether now owned or hereafter acquired, to be subject to a lien or encumbrance, other than the security interest granted in the Pledge Agreement.

4.12. Litigation. There is no action, proceeding or investigation pending or, to the Borrower's knowledge, threatened (or any basis therefor known to the Borrower) which questions the validity of any of the Loan Documents, or any action taken or to be taken pursuant hereto or thereto, or which might result, either in any one case or in the aggregate, in any material adverse change in the business, prospects, profits, properties or condition (financial or otherwise) of the Borrower or DSB or in any material liability on the part of the Borrower or DSB.

4.13. ERISA Matters. Without in any way limiting the scope of any other provision herein, neither the Borrower nor any organization which together with the Borrower is a member of a controlled group (an "Affiliate") as provided in section 414(b) of the Internal Revenue Code of 1986, as amended ("the Code"), has incurred (a) any material accumulated funding deficiency within the meaning of ERISA; or (b) any material liability to the Pension Benefit Guaranty Corporation established under ERISA (or any successor thereto under ERISA) in connection with any employee benefit plan within the meaning of Section 3(3) of ERISA established or maintained by the Borrower or any Affiliate; nor has the Borrower or any Affiliate engaged in

or has knowledge of any prohibited transaction, within the meaning of Section 4975 of the Code, which would materially adversely affect the business, prospects, profits, properties or condition (financial or otherwise) of the Borrower. The Borrower is not in breach of any responsibility, obligation or duty imposed by ERISA upon the Borrower as a fiduciary of any employee benefit plan (if the Borrower is considered a fiduciary pursuant to ERISA or the terms of any employee benefit plan), within the meaning of Section 3(3) of ERISA, or to which it otherwise is subject under the terms of any such plan which would adversely and materially affect the business of the Borrower.

4.14. Liabilities. The Borrower and DSB do not have any liabilities, direct or contingent, except (a) as disclosed in the Financial Statements as at and for the period ended December 31, 1991; (b) as disclosed to the Bank in writing before the execution of this Agreement; and (c) liabilities arising in the ordinary course of business after December 31, 1991.

4.15. Environmental Laws. No release, emission or discharge into the environment of "hazardous substances" (as defined in the Comprehensive Environmental Response, Compensation and Liability Act) or "hazardous waste" (as defined in the Solid Waste Disposal Act) or "hazardous waste" or "toxic pollutants" (as defined in the Clean Air Act or the Toxic Substances and Control Act) has occurred or is currently occurring in excess of federally permitted releases or reportable quantities, or other concentrations, standards or reportable quantities, or other concentrations, standards or limitations under the foregoing laws or under any other federal, state or local laws or regulations, in connection with any aspect of the business of the Borrower or DSB. Except as previously disclosed in writing to the Bank, the Borrower has no knowledge of any past or existing violations by the Borrower or DSB of any environmental laws, ordinances or regulations issued by any federal, state or local governmental authority.

4.16. Subsidiaries. DSB is the only subsidiary of the Borrower. All of the outstanding stock of DSB is owned, beneficially and of record, by the Borrower free from all security interests, liens and encumbrances of any kind. There are no outstanding options, warrants or other rights, the exercise of which would require DSB to issue any additional shares of stock of DSB or any rights convertible to or exchangeable for any such stock. The Borrower has full power to pledge such stock to the Bank as contemplated by this Agreement and the Pledge Agreement.

SECTION 5
Closing Conditions

The obligation of the Bank to make the Loan is subject to the satisfaction of the following conditions at or before the Closing:

5.1. Note and Pledge Agreement. The Borrower shall have executed and delivered the Note and the Pledge Agreement.

5.2. Opinion of Counsel. The Bank shall have received a written opinion from counsel for the Borrower with respect to the matters set forth in EXHIBIT C.

5.3. Documentation. All documentation and forms required under the Loan will be in the form and substance acceptable to the Bank and the Bank's counsel.

5.4. Officer's Certificate. The Bank shall have received an officer's certificate, dated the Closing Date and substantially in the form of EXHIBIT D, signed by the President of the Borrower.

5.5. Resolutions. The Bank shall have received a certified copy of the resolutions of the Board of Directors of the Borrower authorizing the execution, delivery and performance by the Borrower of the Loan Documents.

5.6. Good Standing Certificate. The Borrower shall have provided the Bank with a certificate issued by the State in which the Borrower is organized, stating that the Borrower is in "good standing" within that jurisdiction. Such certificate shall be dated not more than 30 days before the Closing Date.

5.7. Environmental Surveys. The Bank shall have received the Environmental Surveys respecting all real property in which the Borrower or DSB has any interest as requested by the Bank (other than DSB's interest as mortgagee under mortgages taken by DSB to secure loans made in the ordinary course of its business as a commercial or residential lender), and the matters disclosed therein shall be acceptable to the Bank.

5.8. Compliance with Capital Plan & OTS Regulations. The Bank shall have received written evidence, in form and substance satisfactory to the Bank, that DSB's payment of a Required DSB Dividend in the amount of \$146,000, as declared by DSB's Board of Directors on April 24, 1992 for the quarter ended March 31, 1992, has been approved by the OTS (or that the OTS does not object to such declaration and payment) and that such declaration and payment is not prohibited or limited by the Capital Plan or any regulation or order of the OTS or otherwise.

5.9. Other Requirements. The Bank shall have been provided such other certificates, documents and other items as the Bank, in its sole discretion, deems necessary in connection with the Loan.

SECTION 6 Borrower Business Covenants

The Borrower covenants that on and after the date of this Agreement, so long as any principal of or interest on the Note remains unpaid:

6.1. Payment of Taxes and Claims. The Borrower shall pay, and cause DSB to pay, before they become delinquent (a) all taxes, assessments and governmental charges or levies imposed upon it or its income or property; and (b) all claims or demands of materialmen, mechanics, carriers, warehousemen, landlords, bailees and other like Persons which, if unpaid, might result in the creation of a lien or encumbrance upon its property, provided that (i) items of the foregoing description need not be paid while being contested in good faith and by appropriate proceedings diligently prosecuted, (ii) adequate book reserves have been established with respect thereto and (iii) the Borrower's and DSB's title to, and their rights to use, their property are not materially adversely affected thereby.

6.2. Negative Pledge. The Borrower shall not, and shall not permit DSB to, sell assign, transfer, grant a security interest in or otherwise hypothecate its mortgage servicing portfolio, any agreements or contracts governing such portfolio or any fees derived therefrom without the prior written consent of the Bank.

6.3. Maintenance of Properties and Existence. The Borrower shall, and shall cause DSB, at all times to:

- (a) Property -- maintain the property of the Borrower and DSB in good condition and make all renewals, replacements, additions, betterments and improvements thereto which are deemed necessary by the Borrower;
- (b) Insurance -- maintain, with financially sound and reputable insurers, insurance with respect to their properties and businesses against such casualties and contingencies, of such types (including, but not limited to, fire and casualty, public liability, products liability, larceny, embezzlement or other criminal misappropriation insurance) and in such amounts as is

customary in the case of corporations (or banks) of established reputations engaged in the same or a similar business and similarly situated;

- (c) Financial Records -- keep true books of records and accounts in which full and correct entries will be made of all its business transactions, and reflect in its financial statements adequate accruals and appropriations to reserves, all in accordance with generally accepted accounting principles with respect to the Borrower and DSB;
- (d) Corporate Existence and Rights -- do or cause to be done all things necessary (i) to preserve and keep in full force and effect the existence, rights and franchises of the Borrower and DSB, and (ii) to maintain, with respect to the Borrower, its status as a corporation duly organized and existing and in good standing under the laws of the state of its incorporation and, with respect to DSB, to maintain its status as a federal savings bank in good standing;
- (e) Compliance with Law -- not be in violation of any laws, ordinances or governmental rules and regulations to which either of them is subject and will not fail to obtain any licenses, permits, franchises or other governmental authorizations necessary to the ownership of their properties or to the conduct of their businesses, which violation or failure might materially and adversely affect the business, prospects, profits, properties or condition (financial or otherwise) of the Borrower or DSB.

6.4. Fundamental Changes. The Borrower shall not, and shall not permit DSB to, (i) merge or consolidate with any Person, (ii) liquidate, wind-up or dissolve (or suffer any liquidation or dissolution), (iii) convey, sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of its business or assets, whether now owned or hereafter acquired, other than sales of loans or securities by DSB in the ordinary course of its business, (iv) acquire by purchase or otherwise all or substantially all the business or assets of, or stock or other evidence of beneficial ownership of, any Person (other than those of a subsidiary), (v) make any material change in the nature of its business or in the methods by which it conducts business or (vi) amend its charter to create or authorize the creation of any class or series of stock other than the classes or series of stock now authorized in its charter.

6.5. Contingent Liabilities. The Borrower will not (and will not permit DSB to) guarantee, indorse or otherwise become responsible for or upon the obligations of others, except in the ordinary course of business (which ordinary course shall include, by way of illustration and not limitation, the issuance of letters of credit).

6.6. Redemption of Stock. The Borrower shall not redeem or acquire any of its own stock without the Bank's prior written consent, other than shares of its Common Stock acquired for purposes of the Borrower's Executive Officer's Incentive Plan.

6.7. Ownership. The Borrower shall maintain direct or indirect ownership, of record and beneficially, of not less than 100% of the outstanding stock of DSB.

6.8. ERISA Matters. The Borrower shall not, and shall cause DSB not to, voluntarily terminate any employee benefit plan or other plan (a "Plan") maintained for employees of the Borrower or DSB and covered by Title IV of ERISA, so as to result in any material liability of the Borrower to the Pension Benefit Guaranty Corporation ("PBGC"), enter into any Prohibited Transaction (as defined in Section 4975 of the Code and in ERISA) involving any Plan which results in any material liability to the PBGC, cause any occurrence of any Reportable Event (as defined in Title IV of ERISA) which results in any material liability to the PBGC, or allow or suffer to exist any event or condition which results in any material liability to the PBGC.

6.9. Required DSB Dividends. The Borrower shall take, and shall cause DSB to take, all actions required to obtain the approval of the OTS of the timely declaration and payment of each Required DSB Dividend and (subject only to applicable legal restrictions that remain despite the Borrower's and DSB's best efforts) shall cause DSB to declare and pay the Required DSB Dividends. The Borrower shall use the cash received from each Required DSB Dividend to pay (or make provision for the payment of) the principal of and interest on the Note coming due before the next reasonably anticipated payment of a Required DSB Dividend before using such cash for any other purpose, including (without limitation) payment of the Borrower's cash dividends permitted by Section 6.11.

6.10. Other Borrowings. The Borrower and DSB shall not incur any further indebtedness without the Bank's prior written consent; provided, however, DSB shall be permitted without the Bank's consent to incur indebtedness in the ordinary course of DSB's banking business including by way of illustration and not limitation, advances to DSB from the Federal Home Loan Bank and indebtedness of DSB represented by reverse repurchase agreements (both in the ordinary course of DSB's business).

6.11. Cash Dividends and Other Distributions. The Borrower shall not declare or pay any cash dividends, or make any other distributions of any kind to shareholders except for the issuance of stock dividends, without the prior written consent of the Bank, provided, however, that if no Event of Default exists and subject to Section 6.9, the Borrower may pay cash dividends for any fiscal year in an amount that do not exceed, in the aggregate, one-third of the Borrower's net income after taxes for the applicable period without such consent.

6.12. Loans and Advances. The Borrower will not make any loans or advances to any Person other than DSB.

6.13. Information to be Provided. The Borrower shall deliver the following to the Bank:

- (a) concurrently with such filing, a copy of each monthly or quarterly thrift financial report filed by DSB with the OTS;
- (b) within 30 days after the close of each quarter of its fiscal year, a statement signed by the president or chief financial officer of the Borrower certifying that the Borrower is in compliance with terms of this Agreement and the Pledge Agreement;
- (c) concurrently with such filing or delivery, a copy of any and all forms and material filed by the Borrower with the OTS (with any information therein deemed by the OTS to be confidential deleted therefrom) or the Securities and Exchange Commission or delivered to the Borrower's security holders;
- (d) within 90 days after the close of each the Borrower's fiscal years, beginning with the fiscal year ending December 31, 1992, the Borrower's audited consolidated and consolidating financial statements for such year, prepared in accordance with generally accepted accounting principles consistently applied, and the report thereon of KPMG Peat Marwick or other independent auditors acceptable to the Bank;
- (e) within 90 days after the close of each DSB's fiscal years, beginning with the fiscal year ending December 31, 1992, DSB's audited financial statements for such year, prepared in accordance with generally accepted accounting principles consistently applied, and the report thereon of KPMG

Peat, Marwick or other independent auditors acceptable to the Bank;

- (f) within 45 days after the close of each of the first three quarters of DSB's fiscal year, beginning with the quarter ending June 30, 1992, DSB's unaudited interim financial statements showing the actual operating results of DSB for the portion of DSB's fiscal year up to the end of such quarter, including estimates of all adjustments necessary for a fair presentation of DSB's operations for such period, certified by DSB's chief financial officer as presenting fairly the results of DSB's operations for such period;
- (g) within 30 days after the close of each quarter of DSB's fiscal year, beginning with the quarter ending June 30, 1992, a detailed report on DSB's mortgage servicing portfolio for such quarter and for that portion of DSB's fiscal year up to the end of such quarter;
- (h) immediately upon becoming aware of any proposed or final regulation or order issued after the date hereof of the OTS or any other government regulatory body that would limit the ability of DSB to pay the Required DSB Dividends, a written description of such regulation or order and (as soon as it becomes available) a copy thereof;
- (i) immediately upon becoming aware of the existence of any condition or event which constitutes an Event of Default, a written notice specifying the nature and period of existence thereof and what action the Borrower is taking or proposes to take with respect thereto;
- (j) immediately upon the commencement thereof, written notice of any litigation instituted by or against the Borrower or DSB (including any arbitration proceeding) where the amount claimed exceeds \$250,000 and of any proceedings before any governmental agency which would, if successful, materially affect the condition (financial or otherwise) of the Borrower or DSB; and
- (k) at the request of the Bank, such other information as the Bank may from time to time reasonably require.

SECTION 7
Events of Default

7.1. Nature of Events. Each of the following events or conditions constitutes an "Event of Default":

- (a) Failure by the Borrower to make any payment of principal or of interest on the Note on or before the date such payment is due.
- (b) Failure by the Borrower to comply with any other provision of this Agreement, the Note or the Pledge Agreement and the continuance of such failure for ten days or more after written notice from the Bank.
- (c) Any representation, warranty or other statement by or on behalf of the Borrower contained in any Loan Document is false or misleading in any material respect when made.
- (d) The Borrower or DSB becomes insolvent or bankrupt, or makes an assignment for the benefit of creditors, or consents to the appointment of a trustee, receiver or liquidator.
- (e) Bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings are instituted by or against the Borrower or DSB, which proceedings are not dismissed or stayed within 60 days after they are instituted.
- (f) A final judgment or judgments from which no further right of appeal exists, for the payment of \$250,000 or more is or are outstanding against the Borrower or DSB, and any one of such judgments has been outstanding for more than 30 days from the date of its entry and has not been discharged in full or stayed.
- (g) The occurrence of any event which, with the giving of notice, the passage of time or both, would result in the acceleration of the maturity of any indebtedness of the Borrower in excess of \$250,000 in the aggregate.
- (h) The default by any insurer or other surety for the Borrower on any obligation or liability to the Bank in excess of \$250,000 in the aggregate.
- (i) The Bank deems itself insecure with respect to the obligations evidenced by the Note.

7.2. Remedies. If an Event of Default has occurred and is continuing, the Bank may immediately exercise any right, power or remedy permitted to the Bank by law, and shall have, in particular and without limiting the generality of the foregoing, the right to declare the entire principal of and all interest accrued on the Note to be forthwith due and payable, without any presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower. No course of dealing on the part of the Bank nor any delay or failure on the part of the Bank to exercise any right shall operate at a waiver of such right or otherwise prejudice the Bank's rights, powers and remedies.

7.3. Security. In addition to the security interest granted to the Bank pursuant to the Pledge Agreement, any and all deposits or other sums at any time credited by or due from the Bank to the Borrower shall at all times constitute security for the Borrower's indebtedness to the Bank and may be set off against any indebtedness to the Bank, whether or not it is then due, or other security held by the Bank which is considered by the Bank to be adequate. Any and all instruments, documents, policies, certificates of insurance, securities, books, accounts receivable, choses in action, chattel paper, cash, property and the proceeds thereof (whether provided for herein or the proceeds thereof) owned by the Borrower or in which the Borrower has an interest, which now or hereafter are at any time in the possession or control of the Bank or in transit by mail or carrier to or from the Bank, or in the possession of any third party acting in the Bank's behalf, without regard to whether the Bank received the same in pledge for safekeeping, as agent for collection or transmission or otherwise, or whether the Bank has conditionally released the same, shall constitute additional security for the Borrower's indebtedness and may be applied at any time to any indebtedness to the Bank that is then due, whether by acceleration or otherwise.

SECTION 8 Miscellaneous Covenants

8.1. Notices.

(a) All communications that are required or permitted by this Agreement or the Note shall be in writing and shall be mailed by first class United States mail, postage prepaid, addressed as follows:

(1) if to the Bank, at the following address or such other address as may have been furnished in writing to the Borrower by the Bank:

First of America Bank -
Southeast Michigan, N.A.
645 Griswold Street
P.O. Box 2659
Detroit, Michigan 48226

Attention: Michael J. Harris

(2) if to the Borrower, at the following address or such other address as may have been furnished in writing to the Bank by the Borrower:

Mackinac Financial Corporation
511 Woodward Avenue
Detroit, Michigan 48226

Attention: Samuel B. Sherer, Sr., President

(b) Any notice so addressed and mailed by certified United States mail shall be deemed to be given when so mailed. Notices delivered by any other means shall be deemed to be given when received.

8.2. Reproduction of Documents. The Loan Documents and all documents relating hereto, including (without limitation) (a) consents, waivers and modifications which may hereafter be executed, (b) documents received by the Bank at the Closing or otherwise and (c) financial statements, certificates and other information previously or hereafter furnished to the Bank, may be reproduced by the Bank by any photographic or other similar process, and the Bank may destroy any original document so reproduced. The Borrower agrees and stipulates that any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by the Bank in the regular course of business) and that any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence.

8.3. Survival. All representations, warranties and covenants made by the Borrower herein or in any certificate or other instrument delivered by it or on its behalf under this Agreement shall be considered to have been relied upon by the Bank in making its decision to enter into this Agreement, extend credit to the Borrower and Close the Loan, and they shall survive the Closing regardless of any investigation made by or on behalf of the Bank. All statements in any such certificate or other instrument shall constitute representations and warranties by the Borrower.

8.4. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each party.

8.5. Amendment and Waiver. This Agreement may be amended, and the observance of any term of this Agreement may be waived, with (and only with) the written consent of the Borrower and the Bank.

8.6. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be an original but all of which together shall constitute one and the same agreement.

8.7. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Michigan.

8.8. Waiver of Jury Trial. The Borrower waives trial by jury in any litigation in any court with respect to, in connection with or arising out of any Loan Document or the validity, protection, interpretation, collection or enforcement thereof, or any other claim or dispute however arising between the Borrower and the Bank.

IN WITNESS WHEREOF, the parties hereto have made this Agreement effective as of the day and year first above written.

FIRST OF AMERICA BANK - SOUTHEAST
MICHIGAN, N.A..

By Allen W. Hagadon
Allen W. Hagadon, Senior Vice
President

MACKINAC FINANCIAL CORPORATION

By Samuel B. Sherer, Sr.
Samuel B. Sherer, Sr., President

TERM NOTE

Principal Amount: \$1,500,000.00
Date of Issuance: _____, 1992

FOR VALUE RECEIVED, the undersigned, MACKINAC FINANCIAL CORPORATION ("the Borrower"), promises to pay to FIRST OF AMERICA BANK - SOUTHEAST MICHIGAN, N.A. ("the Bank"), or order, at the Bank's principal office at 645 Griswold Street, Detroit, Michigan 48226, or at such other place as the Bank may designate in writing, the principal amount stated above ("the Principal Amount"), together with interest from the Date of Issuance stated above, at the rate or rates and payable at the times and in the manner hereinafter provided.

This Note is executed and delivered to the Bank pursuant to a Term Loan Agreement dated as of April 30, 1992, between the Bank and the Borrower ("the Loan Agreement"), and payment of this Note is secured by a pledge to the Bank of all of the outstanding stock of Detroit Savings Bank, a federal savings bank ("DSB"), pursuant to a Stock Pledge Agreement dated as of April 30, 1992 ("the Pledge Agreement").

All the representations, warranties, agreements, terms and conditions contained in the Loan Agreement or the Pledge Agreement are incorporated herein. Reference is made to the Loan Agreement and the Pledge Agreement for a full statement of the rights of the owner and holder of this Note and the Borrower.

Interest

As used herein, "Base Rate" means the interest rate established as such by the Bank from time to time based on its consideration of economic, money market, business and competitive factors and is not necessarily the Bank's most-favored or lowest rate.

This Note shall bear interest on the unpaid Principal Amount at a fluctuating rate per annum equal to 0.50% above the Base Rate but not more than 10.00% per annum. For purposes of the Loan, such rate shall change automatically and without notice to the Borrower, effective as of the effective date of each announced change by the Bank in the Base Rate.

For the period during which a default shall exist in the payment of any amount due and payable hereunder, whether by

acceleration or otherwise, such amount shall bear interest at the rate of three percentage points per annum in excess of the Base Rate.

All interest shall be calculated on the basis of a 360-day year, but for the actual number of days elapsed during each interest calculation period. The amount of any payment shall first be applied to the payment of any interest then due.

Manner of Payment

Interest on this Note shall be due and payable monthly in arrears on the first day of each month, commencing on June 1, 1992 (each a "Payment Date"), until May 1, 1997 ("the Maturity Date").

The principal of this Note shall be due and payable in monthly installments of \$25,000 each on each Payment Date until the Maturity Date, when the entire principal balance and all interest then due shall be paid in full.

So long as the Borrower is not in default under this Agreement, the Borrower shall have the right, on any Payment Date, to prepay whole installments of the principal of the Note without penalty. All prepayments of principal shall be applied in inverse order of Payment Dates.

Late Charge

Any installment or other payment not made within 10 days of the date such installment or payment is due shall be subject to a late charge equal to 5.00% of the amount of such installment or payment.

Default

During the continuance of an Event of Default (as defined in the Loan Agreement), the Bank may, at its option, without notice or demand, accelerate the maturity of the obligations evidenced hereby, which obligations shall become immediately due and payable. In the event the Bank shall institute any action for the enforcement or collection of the obligations evidenced hereby, the Borrower agrees to pay all costs and expenses of such action, including reasonable attorneys' fees, to the extent permitted by law.

General Provisions

The Borrower and any endorser, surety or guarantor hereby severally waive presentment, notice of dishonor, protest, notice of protest and diligence in bringing suit against any party hereto, and consent that, without discharging any of

them, the time of payment may be extended an unlimited number of times before or after maturity without notice. The Bank shall not be required to pursue any party hereto, including any guarantor, or to exercise any rights against any collateral therefor before exercising any other such rights.

The obligations evidenced hereby may from time to time be evidenced by another note or notes given in substitution therefor or in renewal or extension hereof. Any security interest or mortgage which secures the obligations evidenced hereby shall remain in full force and effect notwithstanding any such substitution, renewal or extension.

The captions used herein are for reference only and shall not be deemed a part of this Note. If any of the terms or provisions of this Note shall be deemed unenforceable, the enforceability of the remaining terms and provisions shall not be affected. This Note shall be governed by and construed in accordance with the law of the State of Michigan.

MACKINAC FINANCIAL CORPORATION

By _____
Samuel B. Sherer, Sr., President

STOCK PLEDGE AGREEMENT

This is a Pledge Agreement ("Agreement") dated as of April 30, 1992, between MACKINAC FINANCIAL CORPORATION, a Michigan corporation ("the Borrower") and FIRST OF AMERICA BANK - SOUTHEAST MICHIGAN, N.A., a national banking association with its principal place of business at 645 Griswold Street, Detroit, Michigan 48226 ("the Bank").

A. The Bank has agreed to loan to the Borrower the principal sum of \$1,500,000 pursuant to the Term Loan Agreement dated as of April 30, 1992, between the Borrower and the Bank ("Loan Agreement") and evidenced by the Note (as defined in the Loan Agreement).

B. The Loan Agreement requires the Borrower to pledge to the Bank all of the outstanding stock of its wholly owned subsidiary, Detroit Savings Bank, a federal savings bank ("DSB"), to secure repayment of the Loan.

NOW, THEREFORE, in order to induce the Bank to make the Loan and to secure the repayment of the Note and all other liabilities and indebtedness, now or hereafter owing by the Borrower to the Bank, the parties agree as follows:

1. Pledge. The Borrower grants a first security interest to the Bank in the following collateral ("the Collateral"):

(a) 100 shares of Common Stock, par value \$1.00 per share, of DSB, held in the name of the Borrower ("the Pledged Shares"), represented by certificate no. ____ ("the Share Certificates", whether one or more).

(b) Any securities hereafter delivered to the Borrower in addition to or substitution for any of the Pledged Shares and all certificates and instruments representing or evidencing such securities.

(c) All of the Borrower's right, title and interest in the Pledged Shares, all dividends or distributions arising therefrom, payable therein or distributed in respect thereto, whether in cash, property, stock or otherwise and whether now or hereafter declared, paid or made, together with the right to receive and receipt therefor; provided, however, that if and so long as no default in the observance and performance of any of the terms of this Agreement, the Loan Agreement or the Note or in the payment of any other indebtedness now or hereafter owing by the Borrower to the Bank, the Borrower shall have the right to receive all dividends in respect to the Collateral paid in cash or in the stock of a corporation other than DSB or in

other property. Notwithstanding the foregoing, the Borrower shall have no right to receive any dividend on the Collateral paid in stock of DSB, or paid out of the proceeds of the sale or condemnation of any property of DSB or upon or in the course of dissolution or liquidation (whether partial or otherwise) or winding up of the DSB, or which in any way shall be chargeable to or payable out of capital, capital surplus or paid-in surplus.

2. Perfection of Security Interest. In order to perfect the Bank's security interest in the Pledged Shares, the Borrower has delivered to the Bank the Share Certificates duly endorsed for transfer in blank (or accompanied by one or more signed stock powers in blank).

3. Representations, Warranties and Covenants. The Borrower hereby represents, warrants and agrees with the Bank as follows:

(a) The Borrower has the power to execute this Agreement and to carry out all of the terms, conditions, covenants and provisions contained herein.

(b) DSB is a federal savings bank organized, validly existing and in good standing; the Borrower is the sole and absolute owner of the Pledged Shares and has full power to make the pledge contemplated hereby; the Pledged Shares are duly issued, fully paid and nonassessable and free from all security interests, liens and encumbrances (other than the security interest granted by the Agreement); immediately before granting the security interest created by this Agreement, the Borrower was the record and beneficial owner and holder of the Pledged Shares on the stock books and records of DSB; the Pledged Shares are all of the issued and outstanding stock of DSB of any class or series; and the Pledged Shares are freely transferrable without restriction or limitation.

(c) During the term of this Agreement, and so long as there is no default in the observance and performance of any of the terms of this Agreement, the Loan Agreement or the Note, the Borrower shall have the right to vote the Pledged Shares on all corporate questions, and the Bank shall execute such due and timely proxies in favor of the Borrower as may be necessary to that end.

(d) If, whenever and as often as, during the term of this Agreement, any stock dividend, reclassification, readjustment or other change is declared or made in the capital structure of DSB, all new, substituted and additional shares or other securities issued in respect to the Pledged Shares shall be held by the Bank under the terms of this Agreement in the same manner as the Pledged Shares.

(e) If, whenever and as often as, during the term of this Agreement, subscription warrants or any other rights or options shall be issued in connection with the Pledged Shares or any other securities at the time held by the Bank hereunder, such warrants, rights and options shall be immediately assigned to the Bank by the Borrower, and if exercised by the Borrower, all new stock or other securities so acquired by the Borrower shall be immediately assigned to the Bank to be held by the Bank under the terms of this Agreement in the same manner as the Pledged Shares.

(f) The Borrower has good right and lawful authority to pledge, hypothecate, mortgage, assign, transfer, deliver, set over and confirm unto the Bank the Collateral as provided in this Agreement, and the Borrower shall warrant and defend the title thereto and the Bank's security interest therein against the claims of all Persons.

(g) So long as this Agreement shall be in effect, the Borrower shall not sell, assign or transfer, and shall not pledge, hypothecate, mortgage or otherwise encumber any right or rights with respect to the Collateral or any rights or interest therein.

4. Default. If, whenever and as often as, the Borrower shall default in the prompt payment of the Note or of any other indebtedness owing to the Bank, or there shall have occurred an Event of Default (as defined in the Loan Agreement), the Bank shall have at any time thereafter the rights and remedies provided in the Uniform Commercial Code in force in Michigan and shall have the right to take any available action or proceeding, at law or in equity, which it deems necessary or advisable for its protection and security.

5. Governing Law. This transaction shall be governed by the laws of Michigan, and the Bank shall have all of the rights and remedies granted to a secured party under the Michigan Uniform Commercial Code.

6. Authority of the Bank. The Borrower hereby irrevocably authorizes and empowers the Bank, in its absolute discretion, at any time after any default in the prompt payment of the Note or the occurrence of an Event of Default (as defined in the Loan Agreement), to transfer or cause to be transferred on the books of DSB to the Bank, or the nominee or nominees of the Bank, the Pledged Shares and the Share Certificates.

7. Termination. When and if the Note and any other indebtedness of the Borrower to the Bank have been paid in full, all rights and interests of the Bank in and to the Pledged Shares and the other Collateral shall thereupon revert in

the Borrower, and the Bank thereupon shall release the security interest granted in this Agreement, reassign the Pledged Shares and the other Collateral to the Borrower and deliver the Share Certificates (together with any related stock powers) to the Borrower.

8. Taxes. The Borrower shall pay for any and all documentary stamps or other taxes which may be imposed on the transfer and delivery to the Bank, or the retransfer and redelivery to the Borrower, of the Pledged Shares, the other Collateral to the Borrower and the Share Certificates.

9. Waiver by the Borrower. The Borrower hereby waives presentment, demand, protest or notice of protest with respect to the Note.

10. Bank's Rights; Exculpation. The Collateral shall be held in the possession of the Bank, and in connection therewith, the Bank shall have the authority and power to take such actions and to exercise such powers hereunder as are specifically delegated to the Bank by the terms hereof, together with such other powers as are reasonably incidental thereto. The Bank shall not be liable hereunder in its capacity as agent or bailee for any action taken or omitted by it hereunder except for its gross negligence or willful breach. The Bank shall have no compensation hereunder and shall be under no duty with respect to the Collateral except to account therefor in due course, pursuant to the terms and conditions hereof.

11. Entire Agreement. This Agreement, the Loan Agreement and the Note contain the complete agreement of the parties hereto.

12. Modification of Agreement. This agreement may not be modified except in writing and executed with the same formality as this Agreement.

13. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

14. Notices. All notices required or permitted to be given hereunder shall be in writing and addressed:

If to the Bank, as follows:

First of America Bank - Southeast Michigan, N.A.
645 Griswold Street
P.O. Box 2659
Detroit, Michigan 48226

Attention: Michael J. Harris

If to the Borrower, as follows:

Mackinac Financial Corporation
511 Woodward Avenue
Detroit, Michigan 48226

Attention: Samuel B. Sherer, Sr., President

15. Further Assurance. Each party shall execute and deliver to the other such further documents and instruments, and shall perform such other acts, as reasonably may be necessary or proper to carry out more effectually the purposes of this Agreement.

FIRST OF AMERICA BANK -
SOUTHEAST MICHIGAN, N.A.,

By _____
Allen W. Hagadon, Senior Vice
President

MACKINAC FINANCIAL CORPORATION

By _____
Samuel B. Sherer, Sr., President

**OPINION OF JAFFE, RAITT, HEUER & WEISS,
PROFESSIONAL CORPORATION**

EXHIBIT C to the Term Loan Agreement, the form of the opinion of Jaffe, Raitt, Heuer & Weiss, Professional Corporation, counsel to the Borrower and DSB, consists of the six typewritten pages that follow this page.

EXHIBIT C - Page 1

Elliot A. Spoon

April 30, 1992

First of America Bank -
Southeast Michigan, N.A.
645 Griswold Street
Post Office Box 2659
Detroit, Michigan 48226

We have advised Mackinac Financial Corporation, a Michigan corporation (the "Borrower"), and its wholly owned subsidiary, Detroit Savings Bank, a federally chartered savings bank ("DSB"), in connection with a Term Loan Agreement dated as of April __, 1992 ("the Loan Agreement"), between the Borrower and First of America Bank - Southeast Michigan, N.A. (the "Bank"). Each capitalized term used (but not defined) herein is so used within the meaning given to such term in the Loan Agreement.

This opinion is being delivered to the Bank pursuant to Section 5.2 of the Loan Agreement, in satisfaction of one of several conditions to the obligation of the Bank to make the Loan.

The law covered by the opinions expressed herein is limited to the Federal Law of the United States and law of the State of Michigan.

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We have examined only the following documents: (1) signed copies of the Loan Documents, (2) the Articles of Incorporation and by-laws of the Borrower, (3) copies certified to our satisfaction of a resolution of the Board of Directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents, (4) Certificate of the Department of Commerce of the State of Michigan regarding the good standing of the Borrower and (5) Certificate of an officer of the Borrower.

In making such examination, we have assumed, with your permission, (a) the authenticity of executed original documents, (b) the conformity to authentic originals of documents submitted to us as certified, conformed or photocopies, (c) the genuineness of the signatures on all documents and (d) the authority of any person who signed a document on behalf of any entity other than the Borrower or DSB.

We have also relied upon factual representations made by the Borrower in the Loan Agreement. To the extent that any opinion given herein is expressed in terms of our knowledge or awareness, we have relied exclusively on the documents examined as described above and the representations of the Borrower in the Loan Agreement. Although we are not aware of anything that contradicts such facts or information, we have not undertaken to independently verify any such facts or information.

Based upon and subject to the foregoing, it is our opinion that:

1. The Borrower is a corporation validly existing and in good standing under the laws of the State of Michigan, and DSB is a federally chartered savings bank validly existing and in good standing under the laws of the United States.

2. To our knowledge, the Borrower and DSB have all requisite power and authority to own and operate their properties and to carry on their businesses as and where now conducted.

3. The Board of Directors of the Borrower has duly authorized the execution, delivery and performance of the Loan Documents, and each Loan Document and the Note constitutes a valid and binding obligation of the Borrower enforceable in accordance with its terms, subject to the effect of (i) bankruptcy, insolvency, reorganization, receivership, moratorium and other similar laws affecting the rights and remedies of creditors generally, (ii) general principles of equity, whether applied by a court of law or equity and (iii) rights of federal agencies under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, as amended, and any similar or successor law or regulation.

4. The execution, delivery and performance of the Loan Documents and the compliance by the Borrower with all of the provisions thereof (i) are within the corporate powers of the Borrower, (ii) will not result in any breach of any of the provisions of, constitute a default under or result in the creation of any lien or encumbrance upon any property of the Borrower under, the provisions of any charter document or bylaw and (iii) are legal and will not violate or conflict with any law, rule or regulation currently in effect, except that performance is subject to the continuing requirements of the Capital Plan and the rules and regulations of the Office of Thrift Supervision.

5. To our knowledge, neither the nature of the Borrower or of its business or properties, nor any relationship between the Borrower and any other Person, nor any circumstance in connection with the execution, delivery or performance of the Loan Documents, is such as to require a consent, approval or authorization of, or filing, registration or qualification with, any governmental authority on the part of the Borrower as a condition to the execution, delivery and performance of the Loan Documents, except for the Office of Thrift Supervision.

6. The capital stock that the Borrower is authorized to issue consists entirely of six hundred thousand (600,000) shares of Common Stock (of which, to our knowledge, only eighty-nine thousand seven hundred thirty-one (89,731) shares are issued and outstanding) and four hundred thousand (400,000) shares of serial preferred stock (none of which are issued and outstanding). The capital stock that DSB is authorized to issue consists entirely of six million (6,000,000) shares of Common Stock, par value One (\$1.00) Dollar per share (of which, to our knowledge, only one hundred (100) shares are issued and outstanding), and four million (4,000,000) shares of serial preferred stock (none of which are issued and outstanding).

7. To our knowledge, DSB is the only subsidiary of the Borrower and all of the outstanding stock of DSB is owned, beneficially and of record, by the Borrower. The Borrower has full power to pledge such stock to the Bank as contemplated by this Agreement and the Pledge Agreement.

This opinion may be relied upon by you only in connection with the Loan Agreement and may not be used or relied upon by you or any other person for any purpose whatsoever, without in each instance our prior written consent.

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First of America Bank
April 30, 1992
Page 6

Very truly yours,

JAFFE, RAITT, HEUER & WEISS
Professional Corporation

Elliot A. Spoon

/mp
DAA0A488

OFFICER'S CERTIFICATE

The undersigned, SAMUEL B. SHERER, SR., certifies to First of America Bank - Southeast Michigan, N.A. ("the Bank"), that:

1. He is the duly elected and serving President of Mackinac Financial Corporation ("the Borrower"). As President of the Borrower, he is familiar with the business, properties and affairs of the Borrower and its wholly owned subsidiary, Detroit Savings Bank, a federal savings bank ("DSB").

2. He has read and understands the Term Loan Agreement dated as of April 30, 1992, between the Bank and the Borrower ("the Loan Agreement") and the Pledge Agreement (as defined in the Loan Agreement).

3. All obligations to be performed and conditions to be satisfied by the Borrower under the Loan Agreement at or before the Closing have been performed or satisfied.

4. The written evidence referred to in Section 5.8 of the Loan Agreement remains in effect without modification of any kind.

5. The representations and warranties made by the Borrower in the Loan Agreement and the Pledge Agreement are true on the date of this Officer's Certificate as though they had been restated herein in their entirety on such date.

DATED: _____, 1992

Samuel B. Sherer, Sr., President

EXHIBIT D

**MACKINAC FINANCIAL CORPORATION AND
DETROIT SAVINGS BANK
EXECUTIVE OFFICERS INCENTIVE PLAN**

Section 1. Purpose and Administration

1.1 Purpose. The purpose of the Executive Officers Incentive Plan (the "Plan") is to promote the interests of Mackinac Financial Corporation (the "Holding Company") and Detroit Savings Bank (the "Corporation") and the employees and shareholders thereof by providing the key executive officers of the Corporation and the Holding Company with a means of acquiring or increasing a proprietary interest in the Holding Company so that they will have an increased incentive to work for the long-term success of the Corporation and the Holding Company.

1.2 Administration. The Plan shall be administered by a committee (the "Committee") of the Board of Directors of the Holding Company. The Committee shall consist of the members of the Board who are disinterested within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934 and shall consist at all times of at least two members. The Committee is authorized to interpret the Plan, to prescribe, amend, and rescind rules and regulations relating to the Plan, to provide for conditions and assurances deemed necessary or advisable to protect the interests of the Corporation, and to make all other determinations necessary or advisable for the administration of the Plan, but only to the extent not contrary to the express provisions of the Plan. Determinations, interpretations, or other actions made or taken by the Committee pursuant to the provisions of the Plan shall be final and binding and conclusive for all purposes and upon all persons whomsoever.

Section 2. Definitions

2.1 Definitions. When used herein, the following terms shall have the meanings set forth below, unless expressly provided otherwise:

- (a) "Board" means the Board of Directors of the Holding Company.
- (b) "Committee" means the Committee appointed in accordance with Section 1.2 of the Plan.
- (c) "Corporation" means Detroit Savings Bank.
- (d) "Key Employee" means the key executive officers of the Corporation and/or the Holding Company.

- (e) "Fair Market Value" means, as of any date, the appraised value based upon the most recent independent appraisal conducted by Financial Strategy Group, Inc. of Washington, D.C. or any other independent appraiser selected by the Holding Company. Such appraisal will be based upon the financial condition and profitability of the Holding Company as reflected in audited year end financial statements and, if applicable, more recent quarterly unaudited financial statements, the Holding Company's business prospects and market values of the thrift industry generally. Such appraisals, while independent, represent the opinion solely of a single financial consultant, will not be joined in by any other independent appraiser and may not reflect the actual price at which Grantees will be able to sell shares of Common Stock.
- (f) "Grantee" means a Key Employee who has received a grant of, and is holding, Restricted Stock under the Plan.
- (g) "Holding Company" means Mackinac Financial Corporation.
- (h) "Period of Restriction" means the period during which the transfer of shares of Restricted Stock is prohibited and the shares remain subject to forfeiture.
- (i) "Restricted Stock" means Stock which has been issued under the Plan and has not been released from the restrictions of the Plan or forfeited.
- (j) "Special Event" means the first to occur of either the single sale of at least 50% of the common stock or assets of the Holding Company or the Corporation or the merger of the Holding company or the Corporation with a corporation that is not affiliated with either the Holding Company or the Corporation as of the Effective Date of the Plan; provided, however, that a "Special Event" shall not be deemed to have occurred in the event of either : (i) a merger of the Holding Company with another entity if, immediately after the merger, the individuals and entities who were shareholders of the Holding Company immediately prior to the merger have the power to elect a majority of the members of the Board of Directors of the surviving corporation in such merger, or (ii) a merger of the

Corporation with another entity if, immediately after the merger, at least 50% of the outstanding stock of the surviving corporation in such merger is owned by the Holding Company.

- (k) "Stock" means the common stock of Mackinac Financial Corporation, which owns all of the outstanding shares of the Corporation.

Section 3. Grants of Restricted Stock

3.1 Eligibility. Eligibility for participation in the Plan shall be limited to those Key Employees designated by the Committee.

3.2 Awarding of Grants. The Committee, at one or more times prior to January 1, 1995, may grant shares of Restricted Stock to such Key Employees as have been determined to be eligible under Section 3.1 above. The grants shall be in such amounts as the Committee may determine, subject to the limits of Section 3.3 below, and the shares granted shall be subject to the terms and conditions of the Plan, including, but not limited to, the provisions hereof relating to restrictions on transfer and forfeiture of the shares.

3.3 Limitation on Grants. The total number of shares of Restricted Stock that may be granted under the Plan shall be determined as follows:

- (a) At such time after January 1, 1992 as the Corporation shall meet the fully phased in regulatory capital requirements reflected in governmental rules and regulations in effect on the date of grant, as determined in the sole discretion of the Committee, shares having a Fair Market Value of \$210,000 may be granted.
- (b) Prior to December 31, 1994 and at such time as the tangible capital of the Corporation shall have increased by \$2 million above the level triggering the grant under (a) above, exclusive of any capital infusions from the Holding Company, additional shares with a Fair Market Value of \$100,000 may be granted.
- (c) Prior to December 31, 1994 and at such time as the tangible capital of the Corporation shall have increased by an additional \$2 million above the level triggering the grant under (b) above, exclusive of any capital infusions from the Holding

Company, additional shares with a Fair Market Value of \$100,000 may be granted.

If any shares of Restricted Stock are reacquired by the Corporation through forfeitures, such shares shall be treated as never having been previously granted under the Plan and shall be available for new grants under the Plan. Notwithstanding the foregoing, (i) no Shares may be granted under the Plan if such award would violate or conflict with any applicable law or governmental rule or regulation, (ii) all grants made prior to the approval of the Plan by the shareholders of the Holding Company shall be contingent upon such approval and (iii) no grants shall be made subsequent to December 31, 1994.

Section 4. Restrictions

4.1 Restrictions. All stock granted under the Plan shall initially be Restricted Stock and during a Period of Restriction shall be subject to the restrictions of the Plan. Such Period of Restriction shall commence with the date of the grant of the Restricted Stock and end with the lifting of the restriction of the Plan or the forfeiture of such Stock, as provided in Section 5.

4.2 Nontransferability. Until the termination of the applicable Period of Restriction, no rights to shares of Restricted Stock may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, otherwise than by beneficiary designation conforming to Section 6.1, below, or by will or the laws of descent and distribution. A Grantee's rights under the Plan shall be exercisable during his lifetime only by the Grantee or his guardian. Upon the death of a Grantee, his beneficiary or legal representative may exercise his rights under the Plan.

4.3 Deposit of Certificates. Certificates for Restricted Stock, after having been issued in the name of the Grantee, shall be deposited with the Corporation to be held during the Period of Restriction. On termination of the Period of Restriction or on forfeiture, the Committee shall be authorized to execute in the name of the Grantee (or, in the event of death, his estate) such assignments of shares as may be required to effect the transfer or cancellation of the shares and the delivery of certificates to the Corporation or such other person as shall be entitled to the same under the terms of the Plan.

4.4 Certificates to Bear Legend. Certificates for Restricted Shares shall bear on the face thereof a legend giving notice that the shares represented by the certificate are subject to the restrictions and other provisions of the Plan. Upon the

release of the shares from the restrictions, and subject to the remittance of any applicable withholding tax, the Grantee or other person entitled to the unrestricted shares shall be entitled to have a new certificate without any legend other than such legend as may be required by applicable securities laws.

4.5 Voting and Dividend Rights. Except as otherwise provided in Section 5.4, nothing in the restrictions shall affect the right of the Grantee of Restricted Stock to exercise full voting rights with respect to Restricted Stock and to be paid all cash dividends in respect to Restricted Stock. Stock dividends or other distributions in securities shall be held by the Corporation and treated in all respects as part of the shares of Restricted Stock with respect to which the distribution relates.

Section 5. Period of Restriction, Lifting of Restrictions, Forfeiture.

5.1 Lifting of Restrictions; Forfeiture if Restrictions Not Lifted Prior to January 1, 2002. As of December 31 of each year from 1992 through 2001, the Committee shall calculate the number of shares as to which the restrictions of the Plan are to be lifted, based on the following formula:

$$RSL = RS \times \frac{DP}{\$4.00} \times 10\%$$

where (i) RSL is the number of shares of Restricted Stock as to which the restrictions are to be lifted, (ii) RS is the number of shares of Restricted Stock which were granted to the Grantee on an initial grant date, and (iii) DP is equal to the per share cash dividends paid on the Stock during the year ending on such date. The calculation shall be made separately with respect to the Restricted Stock granted to a Grantee on each initial grant date, so that if 100 shares of Restricted Stock are granted to an employee in 1992 and an additional 50 shares are granted in 1993, in calculating the shares to be released in 1993, one calculation shall be made with RS equaling 100 and a second calculation be made with RS equaling 50. Any shares as to which the restrictions of the Plan have not been lifted prior to January 1, 2002 shall be forfeited.

5.2 Effect of Termination of Employment. Where a Grantee's employment is terminated, either voluntarily or involuntarily, for any reason other than death, total and permanent disability or retirement (both as defined in the Corporation's Tax Deferred Savings Plan), all shares of Restricted Stock as to which the restrictions of the Plan have not been lifted under Section 5.1 shall be forfeited. Where a

Grantee's employment is terminated by reason of death, total and permanent disability or retirement, all shares of Restricted Stock as to which the restrictions of the Plan have not been lifted under Section 5.1 shall be forfeited except that (i) a calculation under Section 5.1 shall be made as of the date of termination of employment based upon the dividends paid to date in the year of such termination and (ii) the restrictions of the Plan shall be lifted as to an additional number of shares, if any, as may be determined in accordance with the following formula:

$$\text{ARSL} = \frac{(\text{MVTD} - \text{MVGD}) \times \text{FS}}{\text{MVTD}}$$

where (A) ARSL equals the number of additional Shares as to which restrictions of the Plan are to be lifted, (B) MVTD equals the Market Value of a share of Stock on the date of termination of employment, (C) MVGD equals the Market Value of a share of Stock on the date that the Restricted Stock was granted and (D) FS is the number of shares which would be forfeited but for the application of the formula. The calculation under this Section 5.2 shall be made separately with respect to each grant and the calculation of additional Shares under (ii) of this Section 5.2 shall be made after the interim calculation under (i) of this Section 5.2. In the event of termination of employment for any reason, the Committee, in its sole discretion but subject to the approval of the Board, may lift the restrictions on an additional number of Shares.

5.3 Effect of the Occurrence of a Special Event. In the event that a Special Event occurs, the restrictions on transfer shall be lifted as to all shares as to which the restrictions on transfer have not theretofore been lifted under Section 5.1 or 5.2 hereof except those shares which were forfeited prior to the date of the Special Event.

5.4 Limitations Relating to Governmental Compliance and Shareholder Approval. Notwithstanding Sections 5.1, 5.2, 5.3 or any other provision hereof, (i) the restrictions of the Plan shall not be lifted with respect to any shares of Restricted Stock if to do so would violate or conflict with any applicable law or governmental rule or regulation, (ii) the restrictions of the Plan shall remain in effect for a period of at least six months after the date upon which such shares are granted to the Grantee or such longer period as may be required to comply with Rule 16b-3 under the Securities Exchange Act of 1934, (iii) with respect to any Grantee whose beneficial ownership of shares of the Holding Company cannot be increased without governmental approval, (A) such Grantee shall not be entitled to exercise

voting rights with respect to shares of Restricted Stock or to designate a beneficiary under Section 6.1 with respect to such shares until such governmental approval is granted, (B) the restrictions of the Plan shall not be lifted with respect to shares of Restricted stock granted to such Grantee nor may a beneficiary be designated pursuant to Section 6.1 with respect to such shares until the approval is granted, and (C) dividends on the shares of Restricted Stock granted to such Grantee shall be held by the Holding Company until such approval is granted, at which time the dividends shall be paid (without interest) to the Grantee, and (iv) the restrictions of the Plan shall not be lifted prior to the date upon which the Plan is approved by the shareholders of the Holding Company.

Section 6. Beneficiary Designation

6.1 Designation of Beneficiaries. A Grantee may designate a beneficiary or beneficiaries to receive any shares of Restricted Stock as to which the restrictions are lifted upon the death of the Grantee, and Grantee may from time to time change any such beneficiary designation. All beneficiary designations and changes therein shall be in writing and shall be effective only if and when delivered to the Committee during the lifetime of the Grantee.

Section 7. Reimbursement for Certain Taxes

7.1 Payments for Electing Grantees. In the event that a Grantee makes a proper election under the Internal Revenue Code to treat the value of the Restricted Stock covered by a grant as taxable income in the year of such grant and the effect of such election is that the Holding Company or the Corporation is entitled to a corresponding deduction, the Committee may cause the Corporation or the Holding Company to pay to such Grantee, or to apply to withholding taxes that would otherwise be paid by the Grantee in accordance with Section 8.4 hereof, an amount equal to 50% of the value on the date of grant of the Restricted Stock covered by such grant. No such payment shall be made if the Grantee does not make a proper election within thirty (30) days after the date upon which he receives a Restricted Stock grant.

Section 8. Miscellaneous

8.1 Not an Employment Contract. Nothing in this Plan or in any grant shall interfere with or limit in any way the right of the Corporation or the Holding Company to terminate any Grantee's employment at any time, nor confer upon any Grantee any right to continue in the employ of the Corporation or the Holding Company.

8.2 Duration of the Plan. No Stock may be granted under the Plan after December 31, 1994, or such earlier date as the Board may fix. The Plan shall terminate as soon thereafter as there is no longer any Restricted Stock outstanding, but in no event later than January 1, 2002.

8.3 Amendment. The Board may at any time, from time to time and in any respect amend or modify the Plan; provided, however, that shareholder approval shall be required for any amendment that would (i) materially increase the benefits accruing to participants under the Plan; (ii) materially increase the number of securities that may be issued under the Plan; or (iii) materially modify the requirements as to eligibility for participation in the Plan; and provided further that no amendment shall adversely affect any rights of a Grantee with respect to any Restricted stock theretofore granted under the Plan.

8.4 Tax Withholding. All rights under the Plan are subject to such withholding for federal, state or local taxes as may be required by law and the Grantee or other person claiming under the Grantee shall be required to pay to the Corporation or the Holding Company the amount of any such required withholding except to the extent, if any, that payments under Section 7.1 are applied to such withholding.

8.5 Governing Law. The Plan shall be construed in accordance with Michigan law.

8.6 Expenses. Expenses of administering the Plan shall be born by the Corporation.

8.7 Effective Date. The Plan shall become effective as of January 1, 1992 but the effectiveness is contingent upon the approval of the Plan by the shareholders of the Holding Company.

8.8 Indemnification. Each person who is or shall have been a member of the Committee or of the Board shall be indemnified and held harmless by the Corporation from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him in connection with any claim, action, suit, or proceeding to which he may be a party by reason of any action taken or failure to act under the Plan. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Articles of Incorporation or By-Laws of the Corporation or the Holding Company, or as a matter of law, or otherwise, or any power that the Corporation or the Holding Company may have to indemnify them or hold them harmless.

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